



International Steel likely to yield profits at the end of full year...

International Steel Limited (ISL) is engaged in the business of producing and marketing of cold rolled coils and hot dip Galvanized steel. Over the span of time the company has grown With equity of Rs4 bn. All the process units are fully operational; the rolling mill is now geared up for 3 shifts/ day. **We see exponential growth in top line.**

Steel Industry Dynamics

The industry directly employs more than 2mn people worldwide, plus 2mn contractors and 4mn people in supporting industries. Including industries such as construction, transport and energy, the steel industry is at the source of employment for more than 50mn people. The annual production of Galvanised sheet worldwide in FY10 recorded at 31.5mn tons whereas production for cold rolled coils and sheet remained at 30.9mn tonnes reported a growth of 24%.

China, Japan and NAFTA countries are the largest steel manufacturers and have been the major price players in the last several years. The ingots and semi-finished material production remained at 56.6mn tones in FY10

Margins remained under pressure though emerging markets are beam of light

Profits margins in 1QFY13 remained under pressure due to a reduction in the Import Trade Price (ITP) of cold rolled and Galvanized coils.

Here we see a good sign since ISL is a green field project which is now showing good sales appetite and also export prospects. The net turnover for the period 1HFY13 jumped by 18% to 7bn from Rs.5.9bn in 1HFY12. This probably consists of gradual increase in exports, as the company has been able to make entries in South Africa and other Asian countries. Moreover, the recent development likewise cement sector has also allowed room for Pakistani steel manufacturers to export their products in Afghanistan. However, there is an increase in operating expenses i.e. by 71% in terms of admin expenses, which is understandable since overall topline is showing growth.

Int. Steels Rs.('000)	1HFY13	1HFY12	Chg.
Sales-Net	7,056,342	5,976,061	18%
COGS	6,522,433	5,637,668	16%
Gross Profit	533,909	338,393	58%
Admin Exp	54,504	31,877	71%
Selling & Dist. Exp.	39,273	31,113	26%
Oth. Op. Inc.	32,218	48,006	-33%
Oth. Op. Exp.	50,426	144,764	-65%
PBIT	421,924	178,645	136%
Finance Cost	518,974	473,935	10%
PBT	(97,050)	(295,290)	-67%
Tax	28,147	25,123	12%
PAT	(68,903)	(270,167)	-74%
EPS	-0.16	-0.62	-74%

Source: KSE Announcement

Annual Production and Capacity

	FY12	FY11
Capacity (Metric Tons)		
Galvanising	150000	150000
Cold Rolled Steel Strip	250000	250000
Production (Metric Tons)		
Galvanising	113851	38796
Cold Rolled Steel Strip	166826	53228
Capacity Utilisation		
Galvanising	76%	26%
Cold Rolled Steel Strip	67%	21%

Source: Company Reports

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Valuation: The project shall be in profits by FY13 – PE 9.3x

Though ISL has reported a minimal loss in 1HFY13; but we see prospect of net earnings in FY13 since we consider ISL a sound project by valiant sponsors and joint venture partners. We see nearly Rs 1.29/sh EPS for FY13 and hence we remain positive in ISL. We signal BUY since PE arrives at 9.3x.